

Interview with John Dawson, Founder & CEO, Alliance Pharma plc

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Today, Alliance Pharma Plc. represents a true pharmaceutical success story in the UK, distributing to 24 countries and moving towards GBP 50m annual turnover in just twelve years. If we take a look back in time, can you explain what your drivers were to set up the company in 1998?

During the 1990s, I had seen specialty pharma companies emerging, such as Shire for example. I had also seen the splintering of R&D, with small biotech boutiques being set up as spin-offs of bigger pharmaceutical corporations. At that time, I realized these companies would need partners to do their marketing and distribution in the future.

Besides that, I was also pursuing my Master of Science in Finance at London Business School, which put me in touch with a lot of entrepreneurs that served as guest lecturers and so on. This certainly stimulated my appetite towards entrepreneurship. Following my position at Sandoz and the announcement of the Novartis merger in 1996, I knew I would be leaving the company in 1997, which was the final push to establish Alliance Pharma Plc.

It so happened that after this event, I struck a fostering deal with Novartis that led to the creation of the office in Chippenham with 2 people.

Having established that, bringing cashflow into the company first was the best thing to do, rather than seeking products to in-license and launch from scratch. This allowed the company to go on an acquisition trail to buy up brands that other pharmaceutical companies were divesting from their

portfolios. The first acquisition deal was in 1999 with Bioglan, a company that does not exist anymore today. Subsequently, a number of acquisitions quickly followed from companies such as Eli Lilly, Novartis and Procter & Gamble...

A critical thing to do first was to arrange finance. Being Finance Director at Sandoz from 1991 to 1996, together with an Msc. in Finance, helped me significantly in the early years to be able to present an attractive business case to banks and additionally ensure a successful IPO on the Alternative Investment Market (AIM) of the London Stock Exchange in 2003. Today, of course, we have a whole team of professional specialists to deal with all areas of establishing acquisitions.

How challenging was it for you to close these first financing deals?

To close the first deals, we had to convince the banks that moving a brand from one company to the other would not result in its sales dropping off a cliff. Initially, they were doubtful whether a small company such as Alliance Pharma Plc. would be able to achieve the same sales for the same product as a major player.

We thus had to convince the financial institutions of the continuity of our sales. One bank in particular accepted our concept and has been our supplier of debt finance ever since. Once this was established, a few other banks noticed this trend and obviously also came knocking on Alliance's door.

And then you went public in 2003...

Going public did two things for the company: it resulted in an influx of cash for further development and also gave the company a bigger pool of finding equity. Moreover, such a flotation gives you an idea of corporate valuation.

To what extent was it a personal challenge to give away part of the company that you had been growing for five years?

As private equity was already involved before the flotation in December 2003, a small amount of the company had already been given away. Equity was a necessity as we started looking at bigger and bigger deals, in particular as the acquisitions became too big to be entirely financed by debt.

It has never been a problem to see my holding in the company decreasing. If you are able to grow the value of the absolute holding, the percentages do not really matter.

In an earlier meeting with Jacques Servier, founder of Servier, he acknowledged the company's private ownership as a key strength to maintain a long term view. What did the IPO mean for you in

this sense?

I think it depends how long is long. Maintaining a long term view with our external investors has not been a big issue, as we had a clear strategy to build on. The market buys the business case short-term and long-term, but is not worried what will happen in 50 years.

The UK external environment today is very buoyant, with budget cuts, a move from PPRS2009 towards value-based pricing and so on. What are the main challenges you need to take into account in your daily operations and your mid-term strategy?

The challenges for Alliance Pharma Plc. have not changed that much as value-based pricing, for example, affects the products that are being launched, rather than our portfolio directly. Nevertheless, the whole industry needs to be healthy because one sector affects the other.

We have seen an increasing demand for our products even in the areas that we do not promote. Many of our products are so well established that it does not even make economic sense to promote all of them. For example, we have seen growth in non-promoted products purely for demographic reasons such as a growing or ageing population.

Alliance Pharma Plc. has been very careful to select products that have a genuine ongoing use in medicine and that occupy a niche where they can grow and build on their reputation. One example is Naseptin, a product that was bought in 1999 at an age of 40 years old. Naseptin is now 50 years old and has grown around 30 percent in volume throughout these 10 years, without any promotion at all. Getting the right products can secure the company's future, which is exactly why Alliance is so selective in the products it acquires.

Having a look at the overall performance of the company, we have seen sales going up 44% in 2009. What is your outlook for this year and 2011?

The last twelve months' growth has been phenomenal. After a spree of acquisitions in 2006, we saw some transition difficulties for certain products in the following year. Once production for these products really came through in the end of 2008, their contribution in 2009 naturally had a significant positive impact. The contribution of these medicines has now come to a certain plateau. While Alliance will clearly grow next year as well, it will not be at the same multiple as 2009 and 2010.

The acquisition of Cambridge Laboratories in February 2010 brought the company a third more sales and a third more profitability, with good prospects. ImmuCyst, a product for bladder cancer and licensed from Sanofi-aventis, is growing very well. While originally this product was used for

high risk patients, it is now also moving towards patients with medium risk profiles and opening up a much larger market.

Today, the internal growth areas of Alliance Pharma Plc. are the oncology and dermatology areas. At the same time, the company is also looking at international growth to get some of our products into other markets.

What is your expansion strategy to really take the business to a global level?

There are many small agreements with individual distributors overseas, but with some of our more recent acquisitions we now also see the potential to have these registered in some other countries. When you buy a brand, you buy the registration history. If the brand was not registered in the USA but you do see potential, clearly you will look into this opportunity.

As Alliance's domestic market currently represents around 70 percent of the company's turnover, the international markets clearly present significant growth potential. Over time and as the company establishes itself in other countries, we will see this ratio changing in favour of international sales.

And you also have a joint-venture in China... How important is this partnership?

This is a very important partnership. China is a fast growing market where our product, Forceval, is used for nutritional support in early pregnancy stages. There are competing products but we perform very well nonetheless. Clearly, this is a bridgehead we hope to exploit further in the future.

On the HR note, what drives the roughly 60 people in your office to work for Alliance?

A lot of people like the fact that this is a small company that allows them to become more involved. This is because their portfolio of responsibilities is much wider and also because we keep people constantly in touch through briefing sessions. We also stimulate cross-functional working with business-units that operate across the organisation ensuring that all factors on an opportunity are captured and developed. This prevents people from working in silos and gives them greater insight in the whole business.

The corporate culture within the company is also very transparent and open, which additionally attracts people to stay with Alliance Pharma plc. As a result, our employee turnover rate has been quite low. This company is a place where people like to be.

Alliance Pharma plc. also celebrates its success and focuses on the social side that makes its people and their families involved too. As the company grows bigger and bigger, we will of course

be challenged to maintain this culture of a small company, but it will be a top priority.

The Department of Health recently announced it would not proceed with the proposed automatic generic substitution. How is it to operate in a market with the highest or second-highest generic penetration rate in Europe?

I am pleased that generic substitution did not go through, even though Alliance Pharma plc. would not have been affected by this measure. This company buys niche products for which there is generally no generic competition, whereas it is the blockbusters of the industry that get genericized. Alliance's brands are products that are too niche to experience generic competition.

I do believe that there is value in what the doctors prescribe. Since 83 percent of the prescriptions in the UK are already generic, there must be a clear reason why doctors write the 17 remaining percent by brand and their professional decisions should be respected. The high level of generic prescribing in the UK means that the innovative industry has to get its profits back in the in-patent period, in particular since there are so few branded prescriptions that take place after expiry. There is a limited window for the research based companies to reap their rewards.

Fundamental to Alliance's business model is that its brands do not face generic competition. Alliance's brands in fact offer the same value to the NHS as generics do. Although our products are still clinically valid, they are from an earlier era, so too are our prices. Whilst we have created a profitable business, it is based on the fact that our products genuinely offer incredible value, with half of our product packs priced below GBP 4.

Do you see more companies emerging with a similar business model?

There are some smaller private companies that have been involved in this way for some time, but each of them is different. All of the companies that tend to be in the market to purchase mature and established brands have a different outlook. Some will only buy brands they think they can grow through promotional investment, while others are very much restricted to a certain therapeutic area.

For Alliance Pharma Plc., the key success factor is that its products need to be self-sustaining. If they are self-sustaining, it does not matter what therapeutic area they are in.

How do you want the company to be perceived by the industry and establish yourself?

Our perception as a growing specialty pharmaceutical company is to exploit opportunities that do not come from our own research and development, which can relate to both mature as well as

innovative products that need launching. Clearly, when Alliance was younger it did not have such a strong infrastructure as it does today and therefore, it was difficult to attract in-licensing but as Alliance grows bigger and develops further, it can attract in-licensing opportunities more effectively.

What is the main thing that makes you attractive as a partner and what do you look for in another company?

It is our track record that is very attractive for other players in the industry. The capabilities of the team are very high, with a lot of experienced professionals that understand the pharma industry very well and chose to work for Alliance because they like the smaller environment.

Finding fit in a partner is very important. Alliance has a number of in-licensed products at the moment such as ImmuCyst from Sanofi-aventis and Gelclair from Helsinn. Both products belong to the oncology team. We can of course add more products to the oncology and dermatology teams, but the right opportunities have to be selected. This represents a slight diversification from Alliance's history of taking on various mature products, but it is a diversification we could not have made until the company reached a certain critical size.

Alliance is just over 10 years old now and looking at companies that are 10 years ahead of us, such as King Pharmaceuticals which has just been bought out by Pfizer for USD 3.6bn, their progress has been amazing. Shire, 15 years ahead of Alliance Pharma Plc., is another example of the opportunities that can arise from having groundwork that is based on the right capabilities.

How big do you see the company growing?

There is no limit to Alliance's growth and the company aims to grow as big as it can. This is a very opportunistic part of the market where you have to search for the opportunities that arise and respond with bold actions. You have to be realistic too, and blend an aggressive strategy and bold deeds whilst making sure you have got the ground covered so you do not make any mistakes. It is crucial however to keep your two feet on the ground.

When do you see yourself ready to hand over the reins and when will you be satisfied with the company you have been able to build?

I do not think I will be ever fully satisfied simply because there is so much potential for Alliance Pharma Plc. to do more and more things. Clearly, there are a lot of capable people in the company that can manage the business in the long run. While I have a valuable role to play within Alliance, the company is not dependent on me.

The most rewarding part of building the company was to build the teams, bring in experienced people from diverse pharma backgrounds. Additionally we have also been able to grow our own talent. That is very satisfying to see younger people coming through and becoming pharma professionals. . It is a very interesting evolution as you never know what is around the corner. Ten years ago we could never have known how far we could have made it. In that sense, it has been a very adventurous journey that was far less predictable than life in a typical multinational corporation. The strong results naturally also give a lot of satisfaction, but the team side has been at least equally important. The human element gives a great sense of satisfaction.

Is there anything you would like to add that we have not covered yet?

Some examples of milestone acquisitions Alliance engaged in before acquiring Cambridge Laboratories earlier this year, are Nu-Seals, Forceval and Hydromol. By simply looking at the sales growth over the years, you can see Alliance Pharma Plc. growing from GBP 6.3m in 2001 to GBP 44.4m in 2009. Then looking at where we stand now, the half year turnover for 2010 has been GBP 23.4m, an increase of GBP 10.2m over the same period last year. Clearly, there is a very big one-off impact from acquisitions made in 2006 that will now plateau, but the general trend will be straight-lined upward growth over the years.

Another figure worth mentioning is the 3 percent average annual growth rate of the like for like sales of non-promoted products. This slight growth for products that are not at all being promoted has surprised a lot of people. The numbers show that picking the right product in a particular niche can result in a self-sustaining cash generating source for the company.

The selection process of an acquisition target is very comprehensive and to do so, Alliance looks at the history and data made available by IMS, the competitors in the field, and so on. The innovation side of the industry focuses on unmet needs such as Alzheimers, Diabetes etc. Unless there is an unmet need, the innovator cannot sell the product when it comes out years after another medicine has already been made available. That is why Alliance looks for products that occupy their niche well to establish a sustainable business.

The life-cycle of a niche product will also be very different from a blockbuster medicine. The blockbuster will reach very high sales during the in-patent period before facing a drastic sales drop as soon as generics come in when the patent expires. A niche product will see lower sales in the in-patent period, but remain at roughly the same stable level for many years. Buying off-patent drugs that are 20 to 40 years old already shows whether or not generic competition has occurred, and moreover presents to you a brand for which any promotional activity that happened during the in-

patent phase has been washed out. You can then be relatively sure that the bedrock sales for this brand are likely to go on for a very long time.

In five years time, what will Alliance Pharma plc. look like?

Hopefully, Alliance Pharma Plc. will be seen much more as a regional rather than national player by replicating its business model in other countries.

Additionally, it could also be that we are generating more of our growth internally as opposed to acquisition. More and more, we are building our promotional capabilities that contribute to a more steady growth of the company. This balance is important, in particular as you need to wait for the right acquisition opportunities to present themselves at the right time. Of the five year 21% annual average growth rate to 2009, 9 percent has been organic growth while the remaining 12 percent of growth came from acquisitions.

Do you have a final message to the readers of Pharmaceutical Executive?

We all prosper together. Alliance Pharma plc. appreciates how other sectors of the market perform, because at the end of the day we all rely on each other. Without new products coming through the innovators' pipelines and onto the market today, Alliance Pharma plc. would not have any feedstock in the future. Besides having strong ambitions for international expansion, Alliance Pharma plc will not lose its commitment to its home market, the United Kingdom.

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